The Buffalo Oil Corporation

2005 Annual Report

Corporate Profile

THE BUFFALO OIL CORPORATION IS AN EMERGING JUNIOR OIL AND GAS COMPANY ENGAGED IN THE EXPLORATION, DEVELOPMENT AND PRODUCTION OF OIL AND GAS RESERVES IN ALBERTA AND SASKATCHEWAN. THE CORPORATION HAS 17.8 MILLION COMMON SHARES OUTSTANDING THAT TRADE ON THE TSX VENTURE EXCHANGE UNDER THE SYMBOL "BFO".

Strategy

- Grow through the drill bit with internally generated prospects
- Target a 50/50 commodity balance between heavy and light products
- Maintain a cross section of low risk and high risk/high impact exploration targets
- Make judicious use of strategic acquisitions to complement and expand the asset base
- Manage debt conservatively

Synopsis

- Production of 1,200 boe/d
- Mostly operated properties in four areas with year round access
- Access to 49,000 gross acres of prospective undeveloped land through working interests and farm-ins
- A highly motivated and experienced management team

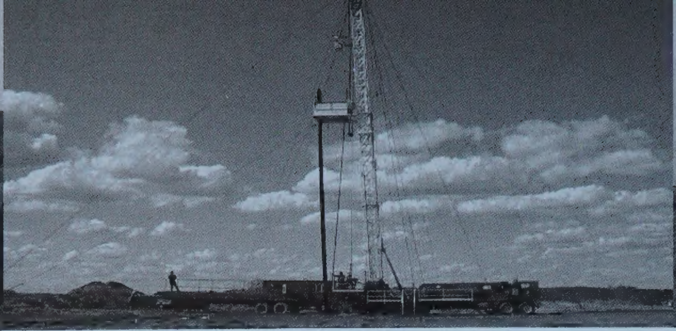
Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of The Buffalo Oil Corporation will be held at 2:30 p.m. (Calgary Time) on June 12, 2006 in the Cardium Room at the Calgary Petroleum Club located at 319 5th Avenue S.W., Calgary, AB T2P 0L5. All shareholders are invited to attend and those who are unable to attend are encouraged to complete and return the enclosed proxy form.

BFO

Highlights

Year ended December 31	2005	2004
Financial		
Total Revenue ($000's)	**8,498**	3,028
Cash Flow from Operations ($000's)	**3,155**	1,344
Per Common Share		
Basic ($)	**0.26**	0.20
Diluted ($)	**0.24**	0.17
Net Earnings (Loss) ($000's)	**(392)**	(566)
Per Common Share		
Basic ($)	**(0.03)**	(0.08)
Diluted ($)	**(0.03)**	(0.08)
Capital Expenditures ($000's)	**11,300**	4,746
Bank Indebtedness ($000's)	**–**	510
Shareholders' Equity ($000's)	**13,191**	5,579
Total Assets ($000's)	**21,150**	9,381
Common Shares (weighted average for year)		
Basic (000's)	**12,325**	6,788
Diluted (000's)	**13,357**	7,703
Common Shares (outstanding December 31 – 000's)	**14,263**	8,342
Operations		
Average Daily Production		
Oil and NGLs (bbls/d)	**363**	57
Natural Gas (mcf/d)	**1,056**	845
Total (boe/d)	**539**	198
% Gas/Oil Ratio	**33/67**	71/29
Average Prices		
Oil and NGLs ($/bbls)	**37.52**	40.30
Natural Gas ($/mcf)	**9.16**	7.07
Total ($/boe)	**43.23**	41.80
Reserves		
Total Proved		
Oil and NGLs (mbbls)	**1,051.7**	298.1
Natural Gas (mmcf)	**2,072.8**	1,428.6
Total (Mboe)	**1,397.2**	536.2
Proved plus Probable		
Oil and NGLs (mbbls)	**2,074.8**	420.1
Natural Gas (mmcf)	**2,923.2**	1,857.2
Total (mboe)	**2,562.1**	729.6
Net Present Value before tax discounted at 10%		
Total Proved ($000's)	**20,958**	7,542
Proved plus Probable ($000's)	**31,756**	9,247
Undeveloped Land		
Gross Acres	**25,853**	9,050
Net Acres	**18,049**	6,316
Wells Drilled		
Gross	**18.0**	5.0
Net	**7.0**	1.3
Net Success Rate (%)	**91**	100


Letter to Shareholders

The First Year

Buffalo's first year as a public company is now behind us. As Chairman I am both pleased and proud to report to our shareholders that the Company has met and, by most measures of performance, far exceeded the targets set for the first year.

During the year we focused primarily on internal opportunities, adding value mostly through the drill bit and making acquisitions where there existed a strategic advantage to the Company and the assets were a direct complement to existing lands and operations. This focus has produced excellent results and enabled Buffalo to add significant value for its shareholders.

2005 Highlights

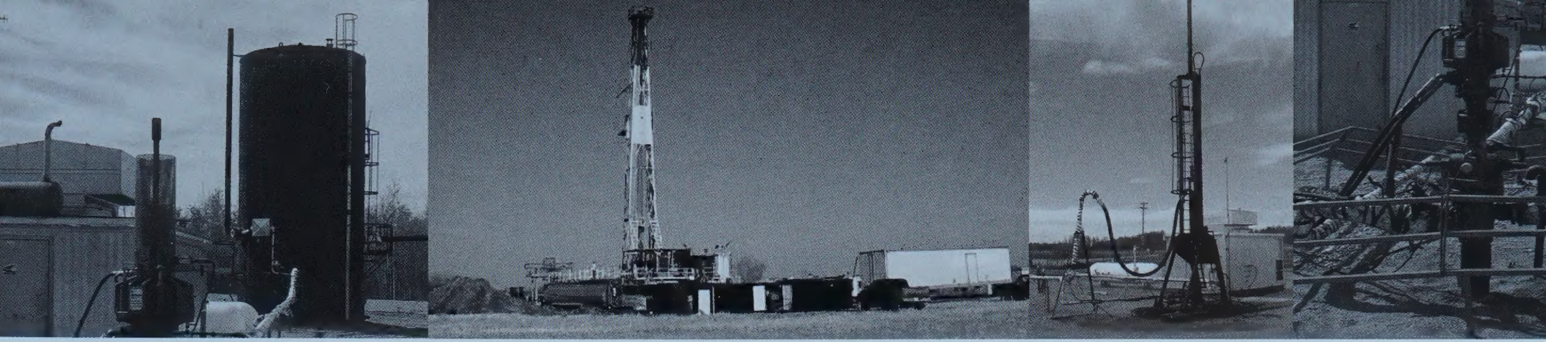
- January 20, 2005 first trading day on the TSX-V, symbol "BFO"
- $5.9 million initial financing @ $1.20 per common share and $1.45 per flow-through share
- $2 million flow-through financing in December at $1.90 per share
- 251% increase in proved plus probable reserves to 2.6 million boe
- 258% increase in 10% NPV before tax of proved plus probable reserves from $9.2 to $31.8 million
- 172% increase in yearly average production rate from 198 to 539 boe/d
- 412% increase in fourth quarter production rate from 193 to 988 boe/d
- 134% increase in yearly cash flow from operations from $1.344 to $3.155 million
- 45% decrease in G&A rate from $7.06 to $3.85 per boe/d
- Finding, development and acquisition cost of $8.22 per boe on a proved plus probable reserves basis

On September 30, 2005 Buffalo, with its partner Frog Lake Energy Resources Corp., closed the acquisition of all the producing assets and undeveloped lands of a major integrated energy company on the reserve lands of the Frog Lake First Nation. This strategic acquisition added 500 boe/d of production at a cash cost of $8.66 per boe of proved reserves and $8,500 per flowing barrel of production.

Strategy

Buffalo's strategy remains unchanged. The Company will focus on heavy oil exploitation within our core area at Frog Lake and horizontal development drilling for light oil in southeast Saskatchewan. This lower risk program will be complemented by an active exploratory drilling program for natural gas on our lands in the Peace River Arch area of northern Alberta.

In the current environment the Company believes the drill bit remains the most efficient way to add value for shareholders, and will therefore continue to add lands within and around its core areas. We will capitalize on our existing relationship with the Frog Lake First Nation and work to expand by entering into similar agreements with other First Nations.



Governance

The Board is currently composed of primarily independent directors and includes only one member of the management group. The Board includes Audit, Reserves and Governance and Compensation Committees which meet regularly throughout the year.

The Board mandate requires that directors exercise independent judgement in considering transactions and agreements of which a director or executive officer has a material interest. Specifically, the Board requires disclosure of any interest of any directors or executive officers, the extent and nature of the interest. The mandate also prevents directors from engaging in activities or accepting appointments or election to office in organizations or associations the activities of which are, or may be perceived to be, in conflict with the activities of the Company.

Outlook

Buffalo was fortunate to have become public in a year of strong commodity prices and a buoyant and accessible capital market place. There is however a downside to such an environment. The cost of doing business for the industry as a whole has increased dramatically. Demand for equipment, services and personnel has outstripped supply causing unprecedented increases in service and drilling company charge rates and a chronic shortage of qualified professionals. As a result industry operating and finding and development costs are rising.

The Company is wary of the fact that in today's giddy pricing environment property values have become distorted. Assets are purchased at ever increasing prices based upon the belief that commodity prices will remain at current levels or even increase. The abrupt decline in natural gas prices in the first quarter of 2006 is a reminder of how quickly economic parameters can change.

However there appears to be a new paradigm evolving in the pricing of Canadian heavy oil. During February 2006, traditionally the poorest month of the year for heavy oil prices, Buffalo realized netbacks for its Frog Lake crude some $5.83 per barrel or 53% higher than for the same month of the prior year. Subsequently, the heavy oil differential (discount paid for Canadian heavy oil) has fallen from $34.57 per barrel in February to $17.16 per barrel in April 2006, representing an additional $17.41 per barrel increase in netback. The price change appears to be structural in nature and brought about by the startup of two pipelines linking western Canada to new markets through Chicago. The first is the new Enbridge 125,000 barrels per day Spearhead line from Chicago to the trading hub at Cushing, Oklahoma. The second is the reversal by EXXON of an inactive segment of its Corsicana pipeline allowing approximately 66,000 barrels per day of Canadian crude to reach Gulf Coast refineries. It is possible that we may be experiencing a fundamental change in the mechanics of heavy oil pricing which bodes well for market valuations of heavy oil producers.

The Buffalo Advantage

Buffalo has an inventory of oil and gas opportunities. The Company's existing land base offers sufficient low risk drilling opportunities to double current production levels. More importantly there is a very real potential for explosive growth through exploratory drilling on existing land holdings in northern Alberta. The 2006 capital program of $17.8 million promises to continue our rapid growth. The program is fully funded as the Company is currently debt free with approximately $5.0 million of cash on hand.

In 2006 Buffalo will drill approximately 42 wells (23 net), to average between 1,500 boe/d and 1,600 boe/d over the year and expects to exit the year at a production rate between 1,800 boe/d and 2,000 boe/d with an anticipated cash flow from operations of approximately $8.4 million.

Our Strength

Buffalo is fortunate to have a knowledgeable and experienced Board of Directors whose support and guidance in the running of a public company has been invaluable. Our management team, most of who have worked together before, is small but all have in excess of 20 years of industry experience. The high level of commitment and trust that exists within the team bodes well for Buffalo and our shareholders.

Management has been successful in developing relationships with First Nations. At Frog Lake we are partnered with Frog Lake Energy Resources Corp. a wholly owned subsidiary of the Frog Lake First Nation. Our partnership is entering its third year and is a cornerstone of Buffalo's growth and at last year's annual general meeting, in recognition of the importance of our relationship with the Band, Chief Roland Quinney joined the Buffalo Board. We are working diligently to enter into similar partnerships with other First Nations and to repeat the success experienced at Frog Lake.

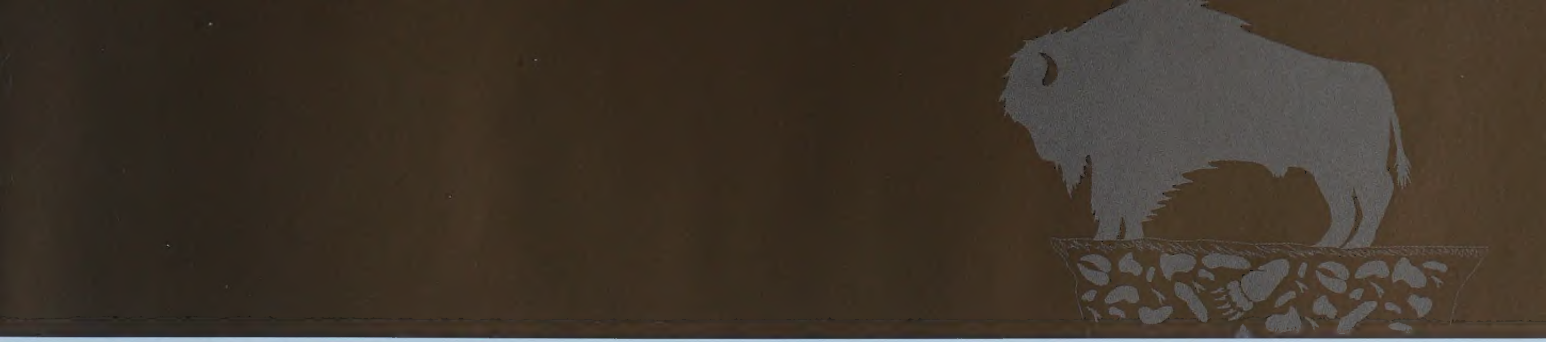
Acknowledgements

I wish to express my sincere thanks to our employees, directors and our First Nation partners. Each has played an integral role in the Company's early success and will continue to do so. Working from such a solid foundation and with the support and assistance from the committed professionals at Buffalo, I look forward with anticipation as we continue to build Buffalo for the benefit of all stakeholders.

On behalf of the Board of Directors

William (Bill) Trickett
Chairman and Chief Executive Officer

April 26, 2006



Operations and Exploration Review

Buffalo achieved its primary goal for 2005 of establishing a core area of operations that will yield stable cash flow, is accessible on a year round basis and will provide extensive drilling opportunities. Through an acquisition completed in September 2005, Buffalo augmented its operations at Frog Lake and became the major oil and gas producer in the area. Management has extensive expertise in the exploitation and production of heavy oil and recognized opportunities to increase production from the lands.

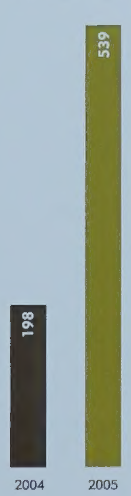
Buffalo participated in the drilling of 18 (net 7.0) wells in 2005 at a 91% success rate. In addition, 4 (net 1.8) non-producing wells were re-completed for production from different zones. These activities resulted in 19 (net 7.3) oil wells, 2 (net 0.9) gas wells and 1 (net 0.6) dry hole.

Frog Lake, Alberta

Sandwiched between two prolific heavy oil fields, the Lindbergh Grand Rapids field to the west and the John Lake Grand Rapids field to the east, the reserve lands of the Frog Lake First Nation ("FLFN") are directly in the cretaceous sand fairway. The lands are prospective for heavy oil from the McLaren, GP, Sparky, Lloyd and Rex zones and for Viking and Colony gas, all at depths of less than 600 metres.

At Frog Lake, Buffalo began 2005 with production of approximately 47 boe/d from two producing wells. In September 2005, the Corporation acquired a 65% working interest in 18 producing oil wells and 7 producing gas wells. During 2005, a further 15 (net 5.7) oil wells were drilled and 3 wells were recompleted, resulting in a total of 32 producing oil wells and 8 producing gas wells at year-end. The oil wells are produced as single well batteries with production being trucked to the Marwayne oil terminal. Buffalo's share of production at Frog Lake averaged 255 bbls/d of oil and 312 mcf/d of gas for the full year 2005, but in the fourth quarter following the acquisition, it averaged 661 bbls/d of oil and 590 mcf/d of gas. The bulk of the oil production is derived from a McLaren channel which cuts across the centre of the reserve lands and contains up to 30 metres of oil pay. In 2004, Buffalo farmed-in on 10 (net 1.6) wells drilled by another operator on a newly discovered McLaren oil channel in the northern portion of the lands.

PRODUCTION (boe/d)

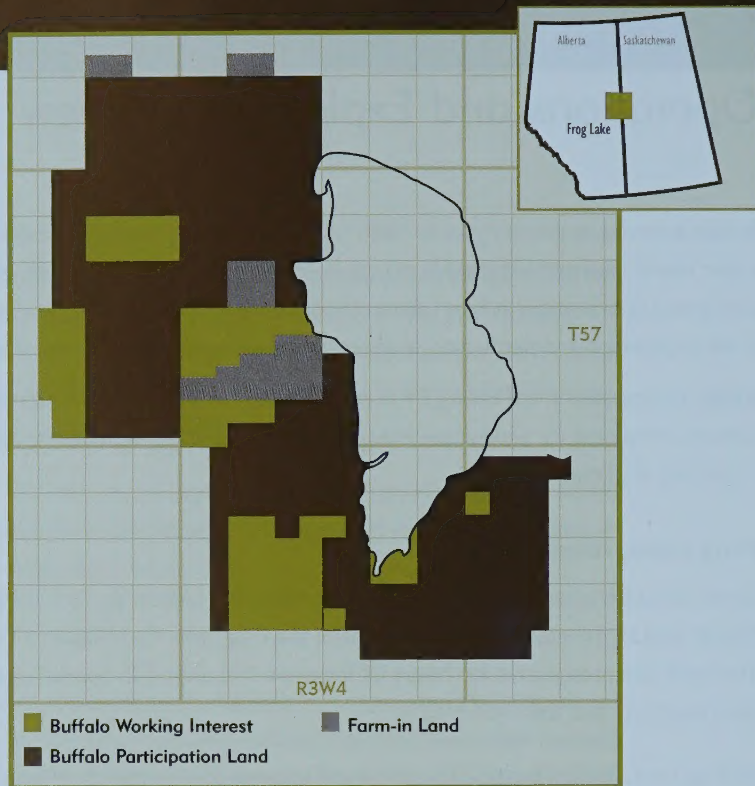


REVENUE ($000's)

CASH FLOW FROM OPERATIONS ($000's)

FROG LAKE

2005 Production (boe/d)	**307**
Reserves p + pa (mboe)	**2,017**
2005 wells drilled (net)	**5.7**
2006 drilling wells planned (net)	**15.0**
Undeveloped acres (net)	**2,400**
Farm-in acres	**23,000**



Working in partnership with Frog Lake Energy Resources Corp. ("FLERC"), Buffalo has now accumulated a significant land position in the Frog Lake area and has mapped in excess of 100 drilling locations on these lands:

- 4,800 acres of land at a 50% working interest, mainly in the southern portion of the reserve. These lands are highly prospective for GP and Sparky oil.
- 2,500 acres of farm-in land in the central reserve area which is prospective for McLaren and GP oil.
- 20,500 acres of land subject to a participation agreement with FLERC, allowing Buffalo to participate in wells drilled by another operator for working interests of 12.5% to 25% in oil and 18.75% to 37.5% in gas wells. The area is prospective for McLaren oil and Colony gas.

In 2006, Buffalo expects to participate by way of farm-in, in further development of the northern McLaren oil channel and to continue drilling on both its working interest and farm-in lands. The 2006 forecast includes drilling 15 net wells at Frog Lake. In addition, two standing Colony gas wells have been identified on logs. In March 2006, the Corporation acquired crown land outside the reserve to complete the gas spacing unit for one of these wells. The well has never produced and, following the installation of a 6 km pipeline and tie-in to the gas processing system, is expected to produce at approximately 0.75 Mmcf/d. Through the Frog Lake acquisition, Buffalo acquired gas processing facilities with underutilized capacity and is continuing to examine other shut in wells for reactivation and recompletion opportunities.

HEWARD

2005 Production (boe/d)	**48**
Reserves p + pa (mboe)	**173**
2005 wells drilled (net)	**0.5**
2006 drilling wells planned (net)	**4.4**
Undeveloped acres (net)	**1,779**

Southeast Saskatchewan

The Corporation has properties at Heward and Alameda which produce light oil from the Midale and Frobisher formations. In the fourth quarter 2005, Buffalo's net share of production from this area was approximately 80 boe/d.

Buffalo has a 52% working interest in four oil wells producing from the Frobisher formation at Heward. In 2005, a step-out dual-leg horizontal well was drilled. The well has been tied-in and is currently on production at a stabilized rate of approximately 20 bbls/d of oil (gross). In April 2006 another horizontal well was drilled at Heward. After break-up, the well will be tied into the central battery and placed on production. Buffalo plans to monitor production from this well to determine the potential for follow up drilling.

At Alameda, Buffalo has an average 80% working interest in five wells which are produced through two operated oil batteries. In 2005, Buffalo participated for a 19% working interest in drilling a horizontal well at Ingoldsby. The well produces from the Frobisher formation at a stabilized rate of approximately 26 bbls/d of oil (gross).

Buffalo has a 53% working interest in approximately 3,300 undeveloped acres of land in southeast Saskatchewan. In addition to the drilling activities at Heward and Alameda described above, potential drilling locations also exist at Queensdale and on two quarters of newly acquired land at Alameda. The 2006 capital budget includes drilling a total of 4.4 net wells in southeast Saskatchewan.

PEACE RIVER ARCH

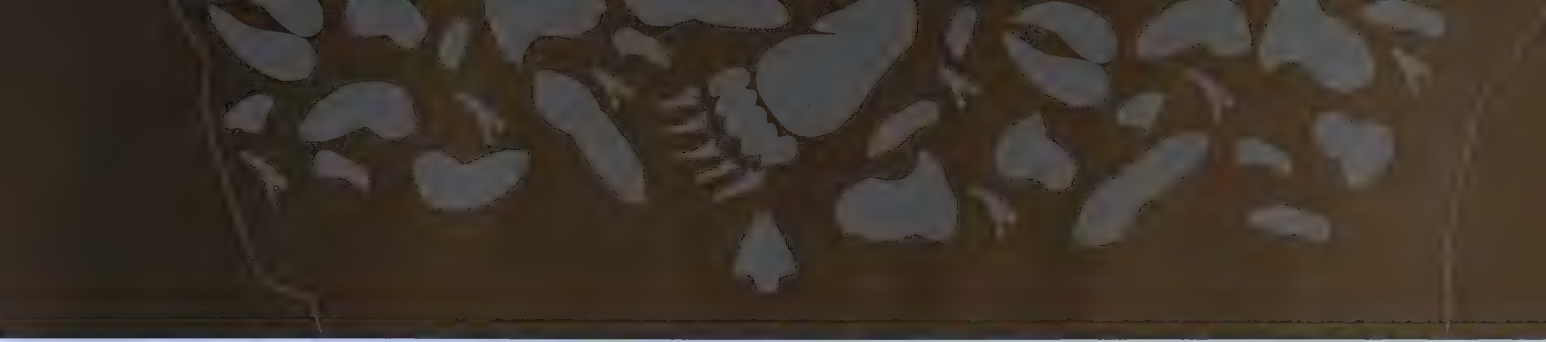
2005 Production (boe/d)	**17**
Reserves p + pa (mboe)	**27**
2005 wells drilled (net)	**0.6**
2006 drilling wells planned (net)	**2.8**
Undeveloped acres (net)	**10,600**

Peace River Arch, Alberta

The Peace River Arch ("PRA"), north and west of Grande Prairie, Alberta, is highly prospective with multi-zone drilling targets for both natural gas and light oil. There is infrastructure in place and excellent seismic coverage. Buffalo holds an average 82% interest in approximately 13,000 acres of undeveloped land in the PRA covering 18 distinct properties. Many of these properties are in areas of significant oil and gas drilling activity.

In 2005, Buffalo drilled one (net 0.6) well at Cecil in the PRA. The well was prospective for four zones with the primary target being the Kiskatinaw zone. The Kiskatinaw zone was not present in the well bore but both the Charlie Lake and Gething zones were prospective on logs. These zones were completed but did not yield economic quantities of hydrocarbons.

Buffalo has budgeted to drill 2.8 net wells in the PRA in 2006. The first well has been licenced at George and should be drilled in the second quarter. This will be a Charlie Lake test and is directly offset by a well which has been on production since February 2003 and is currently producing gas at a rate in excess of 0.75 Mmcf/d.



Central Alberta

Gilby/Rimbey

Buffalo owns various interests ranging from an overriding royalty interest of 1.5% in one well to working interests ranging from 15% to 50% in six producing natural gas wells, three producing oil wells and one suspended oil well, all located 65 miles southwest of Edmonton, Alberta in the Gilby/Rimbey area. These wells and facilities are operated by partners and the production is processed at third party facilities.

Westlock

Located 45 miles northwest of Edmonton, Alberta, Buffalo owns a 100% working interest in two Viking gas wells. Buffalo is the operator of the wells and facilities.

Fort Saskatchewan

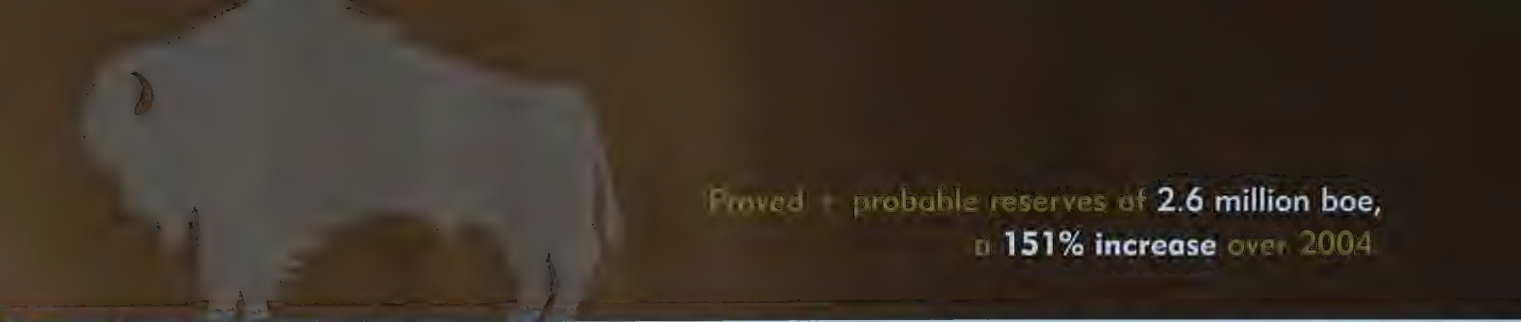
Buffalo operates and holds a 100% working interest in two gas wells that produce from the Viking formation, located 20 miles north of Edmonton, Alberta in the Fort Saskatchewan field.

In 2005, production from this group of properties averaged 135 boe/d. In the first quarter of 2006, a section of undeveloped land has been acquired at each of Westlock and Fort Saskatchewan, in close proximity to Buffalo's production facilities. Potential drilling natural gas targets have been identified on both parcels and Buffalo is reviewing available seismic data prior to selecting drilling locations.

PROVED + PROBABLE
FD&A ($/boe)

PROVED + PROBABLE
RESERVES (mboe)

NPV BEFORE TAX AT 10%
OF PROVED + PROBABLE
RESERVES ($000's)



Oil and Gas Reserves

Buffalo's oil and gas reserves were evaluated by the independent engineering firm of Paddock Lindstrom & Associates Ltd. ("PLA") in their report dated March 31, 2006 (the "PLA Report"). The PLA Report is effective December 31, 2005 and was prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook and in accordance with National Instrument 51-101. Additional information regarding the reserves can be found in the Corporation's Annual Information Form filed on SEDAR (www.sedar.com).

Detailed below is a summary of the Corporation's oil and gas reserves using the PLA price forecast as of December 31, 2005:

	Light & Medium Oil & NGLs		Heavy Oil		Natural Gas		Barrels of Oil Equivalent	
Reserves Category	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
	(Mstb)	(Mstb)	(Mstb)	(Mstb)	(Mmcf)	(Mmcf)	(Mboe)	(Mboe)
Proved Developed Producing	183.1	159.8	549.6	457.1	1,608.4	1,479.4	1,000.8	863.4
Proved Developed Non-Producing	0.5	0.4	0.0	0.0	464.4	372.0	77.9	62.4
Proved Undeveloped	0.7	3.6	317.8	261.5	0.0	0.0	318.5	265.1
Total Proved	184.3	163.7	867.4	718.5	2,072.8	1,851.3	1,397.2	1,190.8
Probable Additional	119.3	106.0	903.9	750.7	850.4	772.4	1,164.9	985.5
Total Proved + Probable	303.6	269.7	1,771.2	1,469.3	2,923.2	2,623.7	2,562.1	2,176.3

(1) Values may not not add due to rounding.

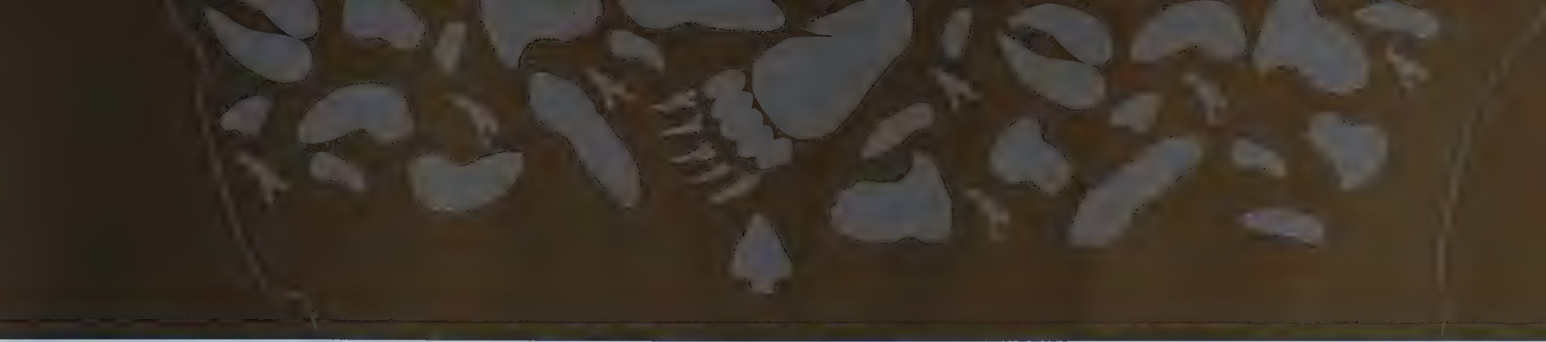
The proved developed non-producing reserves mainly relate to two standing Colony gas wells at Frog Lake. The Corporation anticipates tieing-in one of the wells into gas processing facilities by the end of the second quarter 2006 and expects that this well will adequately capture all the reserves assigned. The proved undeveloped reserves are derived from five infill heavy oil wells to be drilled and one heavy oil well to be reactivated at Frog Lake. The reactivation candidate began production subsequent to year-end and the wells are scheduled to be drilled in the second quarter 2006. The probable additional reserves are derived from nine heavy oil wells to be drilled at Frog Lake (including the five wells assigned proved undeveloped reserves) and one natural gas well to be drilled at Gilby. These wells are all scheduled to be drilled in 2006.

Based on forecast production for the year 2006 as determined by PLA, Buffalo's total proved reserve life index is 4.1 years and its total proved plus probable reserve life index is 5.5 years. In 2005, oil and gas production was replaced 5.3 times on a proved basis and 10.3 times on a proved plus probable basis, calculated by adding the year over year change in reserves to the current year production and dividing this by the current year production.

The net present value of Buffalo's oil and gas reserves at December 31, 2005, discounted at the rates shown, is as follows:

Reserves Category (M$)	**0%**	**5%**	**10%**	**15%**	**20%**
Proved Developed Producing	21,092.3	18,845.6	17,138.9	15,794.1	14,703.4
Proved Developed Non-Producing	2,521.8	2,305.5	2,123.9	1,969.6	1,837.0
Proved Undeveloped	2,357.0	1,995.0	1,695.0	1,443.7	1,231.2
Total Proved	25,971.1	23,146.1	20,957.7	19,207.3	17,771.6
Probable Additional	16,508.2	13,132.5	10,797.8	9,079.0	7,757.2
Total Proved + Probable	42,479.3	36,278.6	31,755.5	28,286.4	25,528.8

(1) Values may not not add due to rounding.



In determining the above valuation, estimated future cash flows are stated before the deduction of general and administrative costs, financing expenses and income taxes, but after the deduction of royalties, operating costs, abandonment costs and future capital expenditures. No value is assigned to undeveloped lands. The net present value includes future capital expenditures of $2.3 million for the Total Proved case, being the cost of placing the non-producing and undeveloped reserves on production.

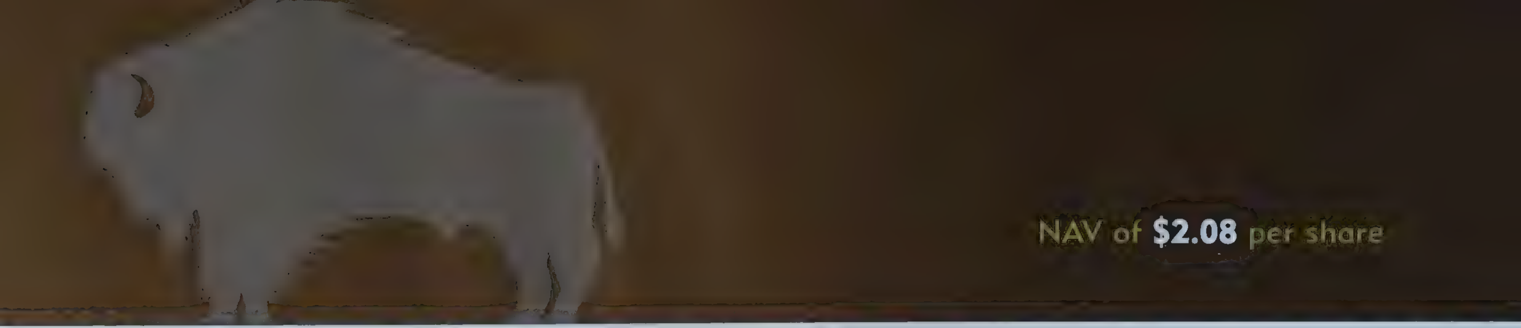
The commodity price forecast used in the PLA Report was as follows:

	Oil WTI	Oil Edmonton Par	Oil – Hardisty 25° API	Natural Gas AECO-C
	($US/bbl)	($Cdn/bbl)	($Cdn/bbl)	($Cdn/MMBtu)
2006	$ 60.00	$ 69.57	$ 46.57	$ 10.54
2007	57.50	66.61	47.61	9.52
2008	55.00	63.64	50.64	8.32
2009	52.50	60.68	47.68	7.71
2010	50.00	57.72	44.46	7.10
2011	47.50	54.76	41.23	7.24
thereafter, values escalated	2%	2%	2%	2%

Changes in the Corporation's net interest in reserves from December 31, 2004 to December 31, 2005 based on forecast price and cost assumptions are as follows:

Reserves Category	Light & Medium Oil Net Proved	Light & Medium Oil Net Proved + Probable	Heavy Oil Net Proved	Heavy Oil Net Proved + Probable	Natural Gas Net Proved	Natural Gas Net Proved + Probable	Barrels of Oil Equivalent Net Proved	Barrels of Oil Equivalent Net Proved + Probable
	(Mstb)	(Mstb)	(Mstb)	(Mstb)	(Mmcf)	(Mmcf)	(Mboe)	(Mboe)
At December 31, 2004	140.0	194.7	96.0	142.4	1,348.6	1,737.1	460.8	626.6
Extensions	3.0	43.1	178.4	425.9	–	–	181.4	468.9
Improved Recovery	–	–	–	–	–	–	–	–
Technical Revisions	10.7	0.4	(28.5)	23.2	(92.7)	(121.7)	(33.2)	3.3
Discoveries	27.9	37.3	148.8	225.4	149.7	295.2	201.6	311.8
Acquisitions	–	–	395.5	724.1	708.9	952.9	513.6	882.9
Dispositions	–	–	–	–	–	–	–	–
Economic Factors	–	–	–	–	–	–	–	–
Production	(31.8)	(31.8)	(71.6)	(71.6)	(307.4)	(307.4)	(154.6)	(154.6)
At December 31, 2005	149.8	243.6	718.5	1,469.3	1,807.2	2,556.2	1,169.5	2,139.0
NGLs not included							21.3	37.3
Total December 31, 2005							1,190.8	2,176.3

(1) Values may not not add due to rounding.



NI 51-101 requires that the reconciliation of changes in reserves be prepared based on net reserves (ie. after royalties). The Corporation generally manages its reserves based on the amounts of gross reserves. Consequently, gross reserves have been used in the calculation of FD&A costs below.

Year	Capital spending	Change in future capital	Net additions and revisions	FD&A
	($000's)	($000's)	(Mboe)	($/boe)
Proved				
2005	11,300	2,030	1,046	12.74
2004	4,746	296	341	14.79
Three year average	18,945	2,281	1,368	15.51
Proved and Probable				
2005	11,300	5,268	2,016	8.22
2004	4,746	460	475	10.95
Three year average	18,945	5,683	2,502	9.84

Finding, Development and Acquisition ("FD&A") costs and the recycle ratio are measures of capital efficiency. FD&A is calculated by dividing capital costs for the period plus the change in future development costs as determined by PLA by the change in reserves (including revisions and acquisitions) plus current year production for the same period.

The recycle ratio is calculated as the operating netback per boe divided by the FD&A cost of proved plus probable reserves per boe.

	Operating Netback	FD&A	Recycle ratio
	($/boe)	($/boe)	
2005	19.72	8.22	2.4
2004	26.24	10.95	2.4

The Corporation's net asset value has been calculated based on the value of proved plus probable reserves before tax using PLA's forecast of future prices and costs discounted by 10%. The net asset value increased 122% between December 31, 2004 and December 31, 2005, as follows:

Net Asset Value (000's except per share amounts)	**2005**	2004
Proven + Probable Reserves @ 10% (1)	**$ 31,756**	$ 9,247
Undeveloped Land and Seismic (2)	**868**	1,023
Year end Working Capital and Deficit	**(201)**	(1,457)
Option Proceeds	**1,872**	747
Total	**$ 34,295**	$ 9,560
Fully Diluted Shares (000's)	**16,478**	9,738
Value per Share	**$ 2.08**	$ 0.98

Notes

(1) Reserve values determined before income tax and considering only abandonment costs calculated by PLA.

(2) Undeveloped land and seismic included at the amortized cost recorded in the books of the Corporation.

Management's Discussion and Analysis

Years ended December 31, 2005 and 2004

Management's Discussion and Analysis ("MD&A") for The Buffalo Oil Corporation (the "Corporation") should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2005. The reporting currency, unless otherwise indicated, is Canadian dollars. Additional information relating to the Corporation, including the Corporation's Annual Information Form ("AIF") is available on SEDAR at www.sedar.com.

Certain statements contained in this MD&A, and other reports and filings made with the securities regulatory authorities, include forward looking statements. All forward looking statements are based on the Corporation's beliefs and assumptions based on information available at the time the assumption was made. Forward looking statements relate to, among other things, anticipated financial performance, business prospects, strategies, regulatory developments, new services, market forces, commitments and technological developments. Much of this information also appears in the Corporation's AIF. In particular, this MD&A and the AIF contain forward looking statements pertaining to: (i) oil and natural gas production levels; (ii) capital expenditure programs; (iii) the quantity of the oil and natural gas reserves; (iv) projections of commodity prices and costs; (v) supply and demand for oil and natural gas; (vi) expectations regarding the ability to raise capital and continually add reserves through exploration, development and acquisitions; and (vii) treatment under governmental regulatory regimes.

The actual results could differ materially from those anticipated in these forward looking statements as a result of the following risk factors and as set forth elsewhere in this MD&A and the AIF: (i) volatility in market prices for oil and natural gas; (ii) liabilities inherent in oil and natural gas operations; (iii) uncertainties associated with estimating oil and natural gas reserves; (iv) competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; (v) incorrect assessments of the value of acquisitions; (vi) geological, technical, drilling and processing problems; (vii) fluctuations in foreign exchange or interest rates and stock market volatility; (viii) failure to realize the anticipated benefits of acquisitions; and (ix) other factors discussed under "Risk Factors" in the AIF. These factors should not be construed as exhaustive.

Certain of the assumptions upon which such forward-looking statements are based are contained in this MD&A under the headings "Corporate Outlook" and "Critical Accounting Estimates" and in the AIF under the headings "Description of Business", "Risk Factors" and "Industry Conditions".

The Corporation assumes no obligation to update or revise any forward-looking statements.

Per barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. Boe's may be misleading, particularly if used in isolation. The boe conversion ratio used is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The MD&A contains the terms "cash flow from operations" and "field netback" which are non-GAAP financial measures that do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles ("GAAP") and are therefore unlikely to be comparable to similar measures presented by other issuers. Both "cash flow from operations" and "field netback" provide useful information to investors and management since they are an indicator of the Corporation's profitability and ability to fund future capital expenditures which drives growth. Cash flow from operations is calculated as earnings (loss) before charges for depletion, depreciation and accretion, stock-based compensation and future income taxes. The inclusion of asset retirement expenditures and changes in non-cash operating working capital results in cash flow from operating activities. Field netback represents the profit margin from the sale of oil, natural gas and natural gas liquids and is calculated as revenues less royalties and operating expenses.

DESCRIPTION OF BUSINESS

The Corporation is engaged in the acquisition, exploration, development and production of oil and natural gas from properties in Alberta and Saskatchewan which it undertakes in partnership with other companies. The Buffalo Oil Corporation is the result of a reverse takeover by a private company, Fogo Resources Inc., of the publicly traded Buffalo Oil Company Limited which occurred on December 17, 2004. Comparative figures related to operations are derived from the results of Fogo Resources Inc.

Financial Results

For the year ended December 31	**2005**	2004	2003
Production (boe/d)	**539**	198	183
Revenue	**$ 8,498,531**	$ 3,028,470	$ 2,776,348
Cash flow from operations	**3,154,934**	1,343,876	1,327,593
Cash flow from operations per share	**0.24**	0.17	0.20
Net loss	**(391,587)**	(565,644)	(1,135,750)
Net loss per share	**(0.03)**	(0.08)	(0.17)
Total assets	**21,150,079**	9,381,463	5,465,522
Shareholders' equity	**$ 13,191,168**	$ 5,578,775	$ 4,445,745

The Corporation experienced significant growth over the past three years, particularly since gaining access to public markets following the acquisition of Buffalo Oil Company Limited in December 2004. In 2005, cash of $7.9 million was raised through equity financings, thereby increasing total assets and shareholders' equity. The 2005 increase in revenue and cash flow from operations arose mainly from the acquisition of oil and gas properties on September 30, 2005 together with a general increase in commodity selling prices.

RESULTS OF OPERATIONS

Revenue

	Oil & NGLs	Natural Gas	Total
Year ended December 31, 2004	$ 842,637	$ 2,185,833	$ 3,028,470
Change due to volume	4,485,154	545,262	5,030,416
Change due to pricing	(367,860)	807,505	439,645
Year ended December 31, 2005	**$ 4,959,931**	**$ 3,538,600**	**$ 8,498,531**

Production

For the year ended December 31	**2005**	2004	% Change
Oil & NGLs (bbls/d)	**363**	57	535
Natural gas (Mcf/d)	**1,056**	845	25
Barrels of oil equivalent (boe/d)	**539**	198	172

Average daily production increased from 193 barrels of oil equivalent per day ("boe/d") in the fourth quarter 2004 to 988 boe/d in the fourth quarter 2005, a 412% increase. On September 30, 2005, the Corporation acquired oil and gas properties at Frog Lake which, at that time, were producing approximately 536 boe/d, net to the Corporation's interest. 24 (net 10.7) wells were drilled or re-completed in 2005 and this also contributed to the increase in average daily production. The property acquisition and the Corporation's 2005 drilling program were both weighted towards heavy oil production. Consequently, the mix of oil and gas production changed from 71% natural gas in 2004 to 67% oil and NGLs in 2005.

Realized selling prices

For the year ended December 31		2005		2004	% Change
Oil & NGLs (per bbl)	$	**37.52**	$	40.30	(7)
Natural gas (per Mcf)	$	**9.16**	$	7.07	30
Barrels of oil equivalent (per boe)	$	**43.23**	$	41.80	3

World oil prices rose in 2005. The benchmark price of West Texas Intermediate crude oil increased 36% from an average of US $41.42 per barrel in 2004 to US $56.46 per barrel in 2005. After eliminating the impact of a 7% strengthening of the Canadian dollar against the US dollar, the benchmark price of Canadian light oil increased in a similar range. Despite these increases, the Corporation's average realized selling price for oil and NGLs decreased by 7% reflecting the significantly higher proportion of heavy oil production in 2005. Heavy oil achieves lower selling prices than light oil. The increase in the average realized natural gas selling price was in line with the increase in the Alberta benchmark AECO-C natural gas price over the period.

Royalty expense

For the year ended December 31	2005	Rate %	2004	Rate %
Oil & NGLs	**$ 918,771**	**19%**	$ 154,780	18%
Natural gas	**647,740**	**18%**	313,239	14%
Alberta Royalty Tax Credit	**(13,987)**		(296)	
Total royalties, net of ARTC	**$ 1,552,524**	**18%**	$ 467,723	15%

Royalty rates generally increase as selling prices increase. Despite a 7% drop in the average realized price of oil and NGLs per boe, royalties increased by 1% reflecting the increasing proportion of oil production which is derived from farm-out lands and is therefore subject to the payment of gross overriding royalties. The increase in natural gas royalty rates is in line with the increase in natural gas selling prices.

Operations

Operating costs increased 366% to $3,069,469 in 2005. This largely reflects the increase in production as well as the changing production mix. Heavy oil wells generally incur a higher level of operating costs than other, higher quality hydrocarbons, mainly as a result of the added equipment maintenance costs and sand disposal costs that result from the production and processing of increased volumes of sand which are produced together with the oil. In the fourth quarter of 2005, the Corporation undertook and completed a backlog of previously delayed maintenance activities on the newly acquired Frog Lake assets. Operating costs rose to $15.61 per boe in 2005.

Field netback

For the year ended December 31	2005	$/boe	2004	$/boe
Revenue	**$ 8,498,531**	**$ 43.23**	$ 3,028,470	$ 41.80
Royalty expense, net of ARTC	**(1,552,524)**	**(7.90)**	(467,723)	(6.46)
Operations	**(3,069,469)**	**(15.61)**	(658,964)	(9.10)
Field netback	**$ 3,876,538**	**$ 19.72**	$ 1,901,783	$ 26.24

The average field netback decreased 25% on a boe basis compared with 2004 as a result of the increase in operating costs.

General and administrative expenses

For the year ended December 31	2005	$/boe	2004	$/boe
General and administrative expense	**$ 1,170,256**	**$ 5.95**	$ 720,119	$ 9.94
Overhead recoveries from partners	**(238,678)**		(75,944)	
Capitalized to property and equipment	**(173,912)**		(134,373)	
Net G&A	**$ 757,666**	**$ 3.85**	$ 509,802	$ 7.04

Gross G&A increased 62% to $1,170,256, reflecting the increase in administrative activities associated with acting as "operator" of significantly more wells in the fourth quarter 2005 following the property acquisition at Frog Lake. Buffalo acquired a partner in the wells at Frog Lake and realized a similar increase in overhead recoveries from partners. On a boe basis, the growth in production resulted in net G&A decreasing by 45% to $3.85 per boe.

Interest income and bank interest expense

Because of the equity financings, Buffalo made little use of its operating line of credit in 2005 and invested the surplus funds from those financings in term deposits to earn interest income of $50,849.

Stock-based compensation

A non-cash expense of $534,661 (2004 – $793,724) was recorded in respect of the amortization of the compensation value calculated in respect of outstanding stock and performance options. Stock options issued in 2005 were determined to have a compensation value of $649,288 upon being fair valued using the Black-Scholes option pricing model. This amount, together with $358,573 representing the unamortized fair value of the stock and performance options outstanding at January 1, 2005, is being amortized over the vesting period of the options. For these purposes, all stock options outstanding at January 1, 2005 vested in June 2005, all performance options will vest by August 2007 and all stock options issued in 2005 will vest within two years from the date of issue.

Depletion, depreciation and accretion

For the year ended December 31	2005	$/boe	2004	$/boe
Depletion and depreciation	**$ 2,763,123**	**$ 14.05**	$ 1,075,957	$ 14.85
Accretion of asset retirement obligations	**166,262**	**0.85**	71,663	0.99
Total DD&A	**$ 2,929,385**	**$ 14.90**	$ 1,147,620	$ 15.84

Total DD&A per boe decreased from $15.84 in 2004 to $14.90 in 2005, largely because the September 2005 acquisition of oil and gas properties was completed at a price of $11.88 per proved boe of oil and gas reserves acquired. During 2005, the Corporation accreted obligations for the abandonment and site restoration of 83.2 net wells and facilities (2004 – 37.3).

Income taxes

The Corporation does not anticipate paying current taxes in 2005. A tax recovery of $13,424 was realized following the assessment of the Corporation's 2004 tax return. A future tax expense of $82,475 is recorded in 2005 whereas a recovery of tax might have been expected based on the loss before income taxes of $322,536. This mainly reflects the amortization of stock-based compensation in the amount of $534,661 which is non-deductible for tax purposes. The reconciliation between the expected tax rate and the tax expense is provided in note 7 of the audited financial statements for the year-ended December 31, 2005 together with a summary of the estimated tax pool balances at that date. The Corporation anticipates paying current taxes in 2006.

In 2005, the Corporation issued flow-through common shares for gross proceeds of $3,000,000 and committed to renounce resource expenditures of this amount to the subscribers by March 31, 2006, effective for the 2005 income tax year, and to incur qualifying expenditures of this amount by December 31, 2006. In accordance with GAAP, no future tax liability associated with the issue of flow-through shares was recorded in 2005 because the renunciations were filed with the relevant tax authorities in 2006. Qualifying expenditures totalling $1,000,000 were incurred in 2005 and the remaining $2,000,000 of qualifying expenditures will be incurred in 2006. Each $1,000,000 of qualifying expenditures that are renounced creates an additional future tax liability and a decrease in share capital of approximately $359,200.

LIQUIDITY AND CAPITAL RESOURCES

In 2005, the primary sources of liquidity were cash flows from oil and gas producing activities, and the proceeds of equity issues. Bank borrowings were also used on a limited basis. All capital expenditures are discretionary and the Corporation believes that these three sources will be adequate to fund its planned 2006 activities.

Cash flow from operations

For the year ended December 31	**2005**	**$/boe**	2004	$/boe
Field netback	**$ 3,876,538**	**$ 19.72**	$ 1,901,783	$ 26.24
Net G&A expenses	**(757,666)**	**(3.85)**	(509,802)	(7.04)
Interest income	**50,849**	**0.26**	435	0.01
Bank interest expense	**(28,211)**	**(0.14)**	(22,139)	(0.31)
Current taxes	**13,424**	**0.06**	(26,401)	(0.36)
Cash flow from operations	**$ 3,154,934**	**$ 16.05**	$ 1,343,876	$ 18.54

Equity financing

During 2005, the Corporation undertook two private placements which raised net cash proceeds of $7,247,055. In March 2005, the Corporation issued 4,772,990 common and flow-through common shares at prices of $1.20 per share and $1.45 per share respectively. In December 2005, a further 1,052,632 flow-through common shares were issued at a price of $1.90 per share. 378,665 brokers' warrants were issued to the selling agents in connection with the distribution of the shares issued by these private placements. In February 2005, 318,000 founders' warrants were exercised on a cashless basis resulting in the issue of 179,004 common shares. The holders of founders' options were entitled to exercise the options to acquire the number of shares that was equal to the intrinsic profit in the options at the date of exercise, determined as the difference between the current market price and the exercise price, divided by the current market price, without making any cash payment for the shares. During 2005, 1,007,000 stock options were issued to officers, directors, employees and consultants at prices ranging from $1.12 to $1.61 per share. During 2005, the exercise of stock options and brokers' warrants provided cash of $43,820.

At December 31, 2005, the Corporation had 14,263,438 common shares issued and outstanding and options and warrants outstanding for the issue of a further 2,214,075 common shares. In March 2006, a private placement was completed which resulted in the issue of 3,232,324 common and flow-through common shares at prices of $1.80 per share and $2.20 per share respectively, for net cash proceeds of approximately $5.5 million. Between year-end and March 31, 2006, the exercise of 282,894 brokers' warrants provided cash of approximately $351,000.

Bank loan

At December 31, 2005, the Corporation had an unutilized $4.7 million revolving production loan facility with a Canadian chartered bank which was secured by a $5 million floating charge debenture over all the Corporation's assets and a general security agreement. The next annual credit review is scheduled for April 30, 2006. There were no covenant violations during 2005.

Working capital

At December 31, 2005, the Corporation had a working capital deficit of $200,609 (2004 –$1,457,182) which included $1,706,837 of cash and cash equivalents. At $2.1 million, the 2005 accounts receivable balance represents 1.7 months average fourth quarter revenue (2004 – 2.5 months). Accounts payable and accrued liabilities increased from $1.6 million in 2004 to $4.1 million reflecting the increase in scope of operations and that 5.1 net wells were drilled, completed and equipped in the fourth quarter of 2005 compared with 2 net wells drilled in the same period of 2004.

Capital expenditures

For the year ended December 31	**2005**	2004
Land	**$ 219,630**	$ 361,260
Acquisitions, net of dispositions	**6,202,600**	2,736,338
Geological and geophysical	**281,964**	219,454
Drilling and completions	**3,264,985**	1,009,056
Equipment and facilities	**1,297,272**	369,844
Other	**33,243**	49,586
Total	**$ 11,299,694**	$ 4,745,538

On September 30, 2005 the Corporation acquired producing oil and gas properties in the Frog Lake area of Alberta for aggregate cash consideration of $4,221,160. The Corporation acquired a 65% working interest in the producing assets and a 50% working interest in the undeveloped lands covered by this transaction. At the same time the balance of the interests were acquired by a company which is related to the Corporation, Frog Lake Energy Resources Corp. ("FLERC"). The Corporation granted FLERC an option to acquire 15% of the whole interest in the producing assets from the Corporation at any time before July 1, 2006. The option is exercisable upon the payment to the Corporation of the amount of $1.25 million, adjusted for capital expenditures and net cash flow applicable to the 15% interest for the period from October 1, 2005 to the date of exercise. An asset retirement obligation of $1,967,469 was recorded in connection with this acquisition.

During 2005, 22 (net 8.8) wells were drilled and completed or re-completed resulting in 19 (net 7.3) oil wells and 2 (net 0.9) gas wells. All these wells were on production by year-end or early in 2006. The Corporation acquired parcels of land at George in the Peace River Arch of Alberta and at Alameda in Saskatchewan. Other capital expenditures during 2005 mainly related to the installation of equipment to improve productivity at the Frog Lake operations.

COMMITMENTS AND CONTINGENCIES

The Corporation has operating leases for its Calgary office premises and equipment that expire on December 31, 2010. Annual minimum rental payments are $165,698.

In order to fulfill its farm-in commitments at Frog Lake, the Corporation must drill one well in 2006 at an estimated cost of $450,000.

CONTRACTUAL OBLIGATIONS

As part of normal operations, the Corporation is a party to various contractual commitments. Oil sales from production are contracted on a month-to-month evergreen basis and gas sales from production are contracted on an annual basis commencing each November. The Corporation also has a legal obligation to reclaim all lands in which it has a working interest and which are the subject of oil and gas activities. These obligations come due at varying times. Properties become available for abandonment and reclamation operations when economic production ceases.

RELATED PARTY TRANSACTIONS

Certain directors and officers invoice the Corporation through their personal holding companies for the services they provide. These charges were recorded as general and administrative expenses and totalled $460,362 for the year ended December 31, 2005 (2004 – $188,288). The Corporation obtains professional legal services from a law firm which is a related party through the interest of a director of the Corporation. In 2005, these legal services totalled $103,167 (2004 – $183,393).

In September 2005, the Corporation became related to FLERC when the Chief of the Frog Lake First Nation was appointed as a director of the Corporation. FLERC is the wholly owned oil and gas company of the Frog Lake First Nation. For the period from that appointment to the year-end, the Corporation provided technical and administrative management services for fees of $49,086 and it paid that company $81,301 in respect of royalties and fees in connection with pre-existing farm-out agreements. These transactions were based on agreements between the parties which were negotiated on normal industry terms and all transactions were recorded at the exchange amount determined on the basis of fair value.

SUBSEQUENT EVENTS

In 2006, the Corporation granted 115,000 stock options to employees and consultants at the market price of the stock on the day before grant.

On February 1, 2006, the Corporation's common shares on the TSX Venture Exchange achieved a 30-day average trading price in excess of $2.00 per share. As a result, all 737,760 performance options currently outstanding are now exercisable at any time until August 2012. The holder has the right to acquire one common share of the Corporation for each performance option held upon payment of $0.01 per share. None of the performance options have been exercised.

BUSINESS RISKS

The oil and gas industry is subject to numerous risks, including commodity prices, interest rates, exchange fluctuations, as well as environmental concerns and the success of future drilling. The Corporation attempts to reduce and manage those risks which are controllable.

Safety and environmental concerns are addressed through a corporate contingency plan and by continued emphasis on complying with environmental regulations.

CORPORATE OUTLOOK

The Corporation's Board of Directors approved a capital budget of $17.8 million for 2006 with $11.8 million to be directed towards drilling, completion and equipping of an estimated 23 net wells and $4 million to be directed towards land purchases and geological and geophysical activities. The Corporation's average production should be between 1,500 boe/d and 1,600 boe/d for 2006 and it expects to exit 2006 at a production rate of between 1,800 boe/d and 2,000 boe/d. Cash flow from operations for 2006 is forecast at $8.4 million using management's forecast of average 2006 commodity prices as at March 31, 2006 (WTI oil – US $63.00; AECO-C natural gas $8.00). The 2006 capital expenditure program is expected to be funded by cash flow from operations, approximately $6.0 million in equity financing including the private placement completed in March 2006 and the exercise of brokers' warrants, as well as bank debt of approximately $3.4 million.

SUMMARY OF QUARTERLY RESULTS

Three months ended	March 31 2005	June 30 2005	September 30 2005	December 31 2005
Oil & NGLs (bbls/d)	**192**	**235**	**237**	**781**
Natural gas (mcf/d)	**1,002**	**986**	**996**	**1,238**
Oil equivalent (boe/d)	**359**	**400**	**403**	**988**
Oil and gas revenue	**$ 1,264,290**	**$ 1,528,840**	**$2,051,496**	**$ 3,653,905**
Cash flow from operations	**492,603**	**564,236**	**1,137,011**	**961,084**
Cash flow from operations per share – basic	**0.05**	**0.04**	**0.09**	**0.08**
Cash flow from operations per share – diluted (1)	**0.05**	**0.04**	**0.08**	**0.07**
Net income (loss)	**(202,598)**	**(112,256)**	**392,045**	**(468,778)**
Earnings (loss) per share – basic	**(0.02)**	**(0.01)**	**0.03**	**(0.03)**
Earnings (loss) per share – diluted (1)	**(0.02)**	**(0.01)**	**0.03**	**(0.03)**

Three months ended	March 31 2004	June 30 2004	September 30 2004	December 31 2004
Oil & NGLs (bbls/d)	37	58	83	53
Natural gas (mcf/d)	868	849	821	842
Oil equivalent (boe/d)	182	199	220	193
Oil and gas revenue	$ 680,409	$ 767,977	$ 842,180	$ 737,904
Cash flow from operations	300,658	312,010	365,146	366,062
Cash flow from operations per share – basic	0.04	0.05	0.05	0.06
Cash flow from operations per share – diluted (1)	0.04	0.04	0.05	0.04
Net income (loss)	46,557	9,348	74,605	(696,154)
Earnings (loss) per share – basic	0.01	0.00	0.01	(0.10)
Earnings (loss) per share – diluted (1)	0.01	0.00	0.01	(0.10)

(1) Where the exercise of options would have an anti-dilutive impact on the per share data, it has been assumed that the options would not be exercised.

For the three months ended December 31, 2005, production increased significantly reflecting the property acquisition on September 30, 2005. This production increase produced the increase in revenue. However, operating costs rose from $11.25 per boe in the third quarter 2005 to $19.99 per boe in the fourth quarter 2005, reflecting the high maintenance and sand disposal costs associated with the increased heavy oil production. In addition, the Corporation undertook maintenance which had been delayed by the previous operator on the newly acquired properties. As a result, cash flow from operations was lower than for the third quarter 2005.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements that conform with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended, the most significant of which include:

Full Cost Accounting – The Corporation follows the full cost method of accounting. All costs for exploration and development of reserves are capitalized to separate cost centres for each country and the costs are then depleted on the unit of production method based on estimated proved reserves. The estimation of reserves is subject to significant risks and uncertainties as described below. The capitalized costs cannot exceed a reserve-based ceiling amount which is determined as the estimated value of future

net revenue derived from those reserves plus the value of undeveloped oil and gas properties after consideration of impairment of those properties. If the capitalized costs are determined to be in excess of this ceiling amount, the excess is written off. Accordingly, changes to this accounting estimate can have a significant impact on the value of property and equipment and on net income but no direct impact on cash flow. In compliance with accounting standards, the reserve-based ceiling amount is an estimate that is revisited, and possibly adjusted, at each balance sheet date, to coincide with changes to the latest reserve estimate.

Reserves – The Corporation engages independent qualified reserve evaluators to evaluate its reserves each year. Reserve determinations involve forecasts of future production volumes and timing, and future prices, costs and capital expenditure requirements. All of these are subject to uncertainty. Reserves at the end of each year are based on a report obtained from qualified reserve evaluators. This estimate of reserves will change from one year to the next causing changes in current year amounts used in determining the full cost accounting ceiling amount and in the unit depletion rate. Consequently, reserve revisions can change reported depletion and depreciation and earnings and downward revisions can result in a ceiling test writedown.

Asset Retirement Obligations – The Corporation provides for estimated abandonment and site restoration costs using a fair value method based on cost estimates determined under current legislative requirements and industry practice. The amount of the liability is affected by the estimated cost per well, the timing of the expenditures and the discount factor used. Total future asset retirement obligations are estimated by management based on the Corporation's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities, before deduction of salvage values, and the estimated timing of those costs. Changes to this accounting estimate can have a significant impact on the value of property and equipment and total liabilities on the balance sheet and on net income but no direct impact on cash flow.

Stock-based Compensation – The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which are fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options and performance options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty. Changes to this accounting estimate can have a significant impact on shareholders equity and net income but no direct impact on cash flow.

NEW ACCOUNTING PRONOUNCEMENTS

No accounting standards that were issued by the CICA during the year ended December 31, 2005 are expected to materially impact the Corporation.

DISCLOSURE CONTROLS

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Corporation's management, including the CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation conducted, the CEO and CFO concluded that the design and operation of disclosure controls and procedures were effective as at December 31, 2005 to provide reasonable assurance that material information relating to the Corporation would be made known to them by others within the organization.

Management's Responsibility for Financial Reporting

The accompanying financial statements and all information in the annual report are the responsibility of management. Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and, when necessary, management has made informed judgements and estimates in accounting for transactions that were not complete at the balance sheet date. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the financial statements. Financial information contained elsewhere in the annual report has been prepared and reviewed by management to ensure it is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are protected and financial records are properly maintained to provide reasonable assurance that financial information is relevant and reliable.

The Audit Committee is appointed by the Board of Directors, and comprises directors that are not employees of the Corporation. The Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the financial statements and the external auditors' report. The Board of Directors has approved the financial statements.

William A. Trickett
Chairman and Chief Executive Officer
March 31, 2006

Trevor G. Penford
President and Chief Financial Officer

Auditors' Report

To the Shareholders of The Buffalo Oil Corporation

We have audited the balance sheets of The Buffalo Oil Corporation (the "Company") as at December 31, 2005 and 2004 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 31, 2006

Deloitte & Touche LLP
Chartered Accountants

Balance Sheets

As at December 31	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,706,837**	$ 17,986
Accounts receivable	**2,104,155**	617,048
Income tax receivable	**30,390**	21,744
Deposits and prepaid expenses	**81,900**	34,460
	3,923,282	691,238
Property and equipment (NOTE 3 & 4)	**17,226,796**	8,690,225
Total Assets	**$ 21,150,078**	$ 9,381,463
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness	**$ –**	$ 42,374
Accounts payable and accrued liabilities	**4,123,891**	1,596,046
Bank loan (NOTE 5)	**–**	510,000
	4,123,891	2,148,420
Asset retirement obligations (NOTE 6)	**3,306,927**	1,030,207
Future income taxes (NOTE 7)	**528,092**	624,061
	7,958,910	3,802,688
Commitments and Contingencies (NOTE 10)		
Subsequent Events (NOTE 11)		
Shareholders' Equity		
Share capital (NOTE 8)	**14,300,556**	6,854,334
Contributed surplus (NOTE 9)	**1,397,292**	839,534
Deficit	**(2,506,680)**	(2,115,093)
	13,191,168	5,578,775
Total Liabilities and Shareholders' Equity	**$ 21,150,078**	$ 9,381,463

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

Director

Director

Statements of Operations and Deficit

Year ended December 31	2005	2004
Revenue		
Petroleum and natural gas sales	**$ 8,498,531**	$ 3,028,470
Less: Royalties, net of Alberta Royalty Tax Credits	**1,552,524**	467,723
Net petroleum and natural gas revenue	**6,946,007**	2,560,747
Expenses		
Operations	**3,069,469**	658,964
General and administrative	**757,666**	509,802
Stock-based compensation	**534,661**	793,724
Bank interest expense	**28,211**	22,138
Interest income	**(50,849)**	(434)
Depletion, depreciation and accretion	**2,929,385**	1,147,620
	7,268,543	3,131,814
Loss before income taxes	**(322,536)**	(571,067)
Income taxes (NOTE 7)		
Current	**(13,424)**	26,401
Future	**82,475**	(31,824)
	69,051	(5,423)
Net loss	**(391,587)**	(565,644)
Deficit, beginning of year (NOTE 3(v))	**(2,115,093)**	(1,549,449)
Deficit, end of year	**$ (2,506,680)**	$ (2,115,093)
Loss per share – basic and diluted	**$ 0.03**	$ 0.08
Weighted average common shares outstanding:		
Basic	**12,325,069**	6,787,765
Diluted	**13,356,798**	7,703,182

See accompanying notes to the financial statements

Statements of Cash Flow

Year ended December 31	2005	2004
Operating Activities		
Net loss	**$ (391,587)**	$ (565,644)
Add (deduct) items not affecting cash:		
Depreciation, depletion and accretion	**2,929,385**	1,147,620
Stock-based compensation	**534,661**	793,724
Future income taxes	**82,475**	(31,824)
	3,154,934	1,343,876
Asset retirement expenditures	**(65,452)**	(1,850)
(Increase) decrease in non-cash working capital	**206,211**	(236,350)
	3,295,693	1,105,676
Financing Activities		
Common shares issued, net of expenses	**7,290,875**	105,000
Bank loan advances (repayments), net	**(510,000)**	200,000
	6,780,875	305,000
Investing Activities		
Expenditures on oil and gas property and equipment	**(4,902,625)**	(1,915,622)
Purchase of producing oil and gas properties	**(4,221,160)**	(280,828)
Acquisition of company, net of bank indebtedness (NOTE 3)	**–**	(404,614)
Decrease in non-cash working capital	**778,442**	1,073,187
	(8,345,343)	(1,527,877)
Net cash inflow (outflow) for the year	**1,731,225**	(117,201)
Cash and cash equivalents, beginning of year	**(24,388)**	92,813
Cash and cash equivalents, end of year	**$ 1,706,837**	$ (24,388)
Cash and cash equivalents comprises:		
Bank balance	**$ 705,509**	$ 17,986
Term deposits	**1,001,328**	–
Bank indebtedness	**–**	(42,374)
	$ 1,706,837	$ (24,388)

See accompanying notes to the financial statements

Notes to the Financial Statements

December 31, 2005

1. NATURE OF THE BUSINESS

The Buffalo Oil Corporation (the "Corporation") is incorporated under the laws of Alberta and is listed on the TSX Venture Exchange.

The Corporation results from an amalgamation of Fogo Resources Inc. ("Fogo") with Buffalo Oil Company Limited ("Buffalo") on December 17, 2004. The Fogo shareholders exchanged their Fogo common shares for class "A" common shares of Buffalo Oil Company Limited ("Buffalo") and Fogo was amalgamated with a wholly owned subsidiary of Buffalo. At the time, Buffalo was a company that traded on the TSX Venture Exchange. The transaction was accounted for as an acquisition of the net assets of Buffalo by Fogo, which was deemed the acquirer for accounting purposes. The results of operations and cash flows of Buffalo were included only from the date of acquisition by Fogo. On December 31, 2004 the name of the Corporation was changed to The Buffalo Oil Corporation.

The Corporation is engaged in the exploration, development, acquisition and production of petroleum and natural gas in western Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Petroleum and natural gas properties and equipment

i) Capitalized Costs

The Corporation follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized in a Canadian cost centre and charged against income as set out in 2(a)(ii) and (iii) below. Such costs may include land acquisition costs, geological and geophysical expenses, lease rentals and other costs of maintaining non-producing properties, costs of drilling both productive and non-productive wells, production equipment costs, estimated asset retirement costs and overhead charges directly related to all these activities. These costs along with estimated future capital costs in the current reserves report related to the development of proved reserves, net of estimated salvage values are included in the depletion calculation. Proceeds from the disposition of properties are applied against capitalized costs except where this application would change the depletion and depreciation rate by more than 20%, in which case, the gain or loss arising on the disposition is included in earnings.

ii) Depletion and Depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated net proved petroleum and natural gas reserves before the deduction of royalties, as determined by the Corporation's independent reservoir engineers. For depletion and depreciation purposes, volumes of natural gas production and reserves are converted to equivalent oil units at a ratio of six thousand cubic feet of natural gas to one barrel of oil.

Costs of acquiring and evaluating unproved properties may be excluded from depletion and depreciation calculations until it is determined whether proved reserves are attributable to the properties or impairment has occurred. Unproved properties are assessed periodically to ascertain whether impairment has occurred.

Furniture and equipment is depreciated over the estimated useful lives of the assets using the straight-line method at the rate of 25% per annum.

iii) Impairment Test

The net carrying value of the Corporation's petroleum and natural gas properties in each cost centre are tested for impairment through the use of the ceiling test and an impairment loss is recognized if the carrying amount is considered to be not recoverable and also exceeds the cost centre's fair value. The carrying amount is considered not recoverable if it exceeds the sum of the undiscounted cash flows expected from the disposition of the cost centre's proved reserves. The fair value of the cost centre is estimated using the discounted present value of expected future cash flows from the sale of proved and probable additional reserves. Any impairment loss is charged to earnings as depletion and depreciation expense.

b) Asset retirement obligations

Liabilities for the fair value of environmental and site restoration obligations are recorded when the obligations are incurred and the fair value can be reasonably estimated, normally at the time that the related assets are developed. The fair value of the obligations is based on the estimated cash flow required to settle the obligations, discounted using the risk adjusted rate for the applicable term. At that time, the fair value of the obligations is recorded as a liability and an increase in capitalized costs. The liability is accreted periodically for the increase in fair value of the obligations due to the passage of time. The accretion expense is charged to earnings.

c) Joint ventures

A portion of the Corporation's petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

d) Revenue recognition

Petroleum and natural gas sales are recognized when the product is shipped and ownership transfers.

e) Earnings per share

Basic earnings per share is determined based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by applying the treasury stock method to the exercise of outstanding stock options and share purchase warrants, except to the extent that the inclusion of these items would be anti-dilutive.

f) Future income taxes

The Corporation records future income taxes on the liability method of tax accounting. Under this method, future tax assets and liabilities are determined based on the temporary differences between the carrying values of assets and liabilities and their tax basis. Effects of changes in tax laws and tax rates are recognized when substantially enacted. Future income tax expense (recovery) is computed based on the change in the balance sheet values of future tax assets and liabilities during the period.

g) Financial instruments

The fair market value of financial instruments, consisting primarily of cash and cash equivalents, accounts receivable, income tax receivable, deposits, accounts payable and accrued liabilities and the bank loan approximate their carrying value because of the short term to maturity.

h) Measurement uncertainty

The amounts recorded for depletion and depreciation and impairment of petroleum and natural gas properties and equipment and asset retirement obligations are based on estimates of reserves and future costs. By their nature, these estimates, and those related to the future cash flows used to assess impairment, could differ from actual results and impact the financial statements of future periods.

i) Flow-through shares

Resource expenditure deductions for income tax purposes that arise from exploration and development activities and which have been funded by flow-through share arrangements, are renounced to investors in accordance with income tax legislation. On the date that the Corporation files the renunciation with the income tax authorities, a future income tax liability is recorded and share capital is reduced by the estimated tax benefits transferred to shareholders.

j) Stock-based compensation

The Corporation recognizes stock compensation expense based on the estimated fair value of the option on the date of grant or amendment of terms of the option, which is determined using the Black-Scholes option pricing model. The fair values of options granted to employees are deferred and recognized as compensation expense over the vesting period of the options, with a corresponding increase in contributed surplus. Compensation expense is included in general and administrative expense. The fair value of options granted to non employees is recorded as an increase in the cost of the service being provided at the date of grant and is adjusted to fair value at each reporting date until the instrument vests, with corresponding amounts being recorded in contributed surplus.

Consideration paid to the Corporation upon the exercise of options is recorded as an increase in share capital. The contributed surplus balance is reduced as the options are exercised and the amount initially recorded is credited to share capital.

3. ACQUISITION OF BUFFALO OIL COMPANY LIMITED – 2004

On December 17, 2004, Fogo amalgamated with a wholly-owned subsidiary of Buffalo through the exchange of all the Fogo common shares for 34,163,217 Buffalo common shares (note 8c). At the time, the performance options and founders' options that had previously been issued by Fogo, were restated for the issue of Buffalo common shares in accordance with the share exchange ratio (notes 8f and 8g). The acquisition was accounted for as a reverse takeover of Buffalo by Fogo as follows:

i) The comparative financial statements for the year ended December 31, 2004 are presented as a continuation of the financial statements of Fogo;

ii) As Fogo was the acquirer for accounting purposes, its assets and liabilities were recorded at their carrying values;

iii) The results of Buffalo's operations were included in the comparative financial statements only from the date of the acquisition of control by Fogo on December 17, 2004. For purposes of this transaction, consideration was determined by the fair values of the net assets acquired and was ascribed to the 7,546,875 common shares of Buffalo which were outstanding on December 17, 2004. Buffalo's assets and liabilities were recorded at these fair values for accounting purposes;

iv) Buffalo's outstanding stock options at December 17, 2004 were adopted by the Corporation;

v) The tax rate changed from 16.4% to 38.1% as the Corporation ceased to qualify for the lower tax rate applicable to small business corporations. This change was considered to be part of the capital transaction and resulted in an increase in the future tax liability of $306,444, a charge to deficit of $329,657 and an increase in share capital of $23,213.

Consideration paid and values assigned to the net assets of Buffalo were as follows:

Consideration	
Cash paid	$ 362,240
Bank indebtedness assumed	42,374
Buffalo stock options adopted	45,810
Common shares issued	1,065,153
	$ 1,515,577
Net assets acquired	
Oil and gas property and equipment	$ 2,455,510
Asset retirement obligations assumed	(578,391)
Net working capital deficit, excluding bank indebtedness	(285,283)
Future tax liability recorded on increase in values of net assets acquired	(76,259)
	$ 1,515,577

The Corporation incurred reorganization costs related to this transaction totalling $201,688 which were included in the consideration paid in cash of $362,240.

4. PROPERTY AND EQUIPMENT

As at December 31	**2005**	2004
Oil and gas properties and equipment	**$ 24,635,937**	$ 13,336,243
Accumulated depletion and depreciation	**7,409,141**	4,646,018
Net book value	**$ 17,226,796**	$ 8,690,225

In September 2005, the Corporation acquired producing oil and gas properties and equipment and undeveloped lands in the Frog Lake area of Alberta for aggregate cash consideration of $4,221,160. The amount of $1,967,469 was recorded as an increase in the value of property and equipment and as a liability for asset retirement obligations in respect of the estimated current value of future abandonment and site restoration activities associated with the wells and facilities acquired.

During 2005, general and administrative expenses relating to exploration and development activities totalling $173,913 (2004 – $134,373) were capitalized. At December 31, 2005, costs relating to unproven properties totalling $867,811 (2004 – $1,022,649) have been excluded from costs subject to depletion and depreciation. Future development costs of proved undeveloped reserves of $2,331,000 (2004 – $301,000) were included in the depletion and depreciation calculations.

The Corporation applied a ceiling test to capitalized costs of petroleum and natural gas properties at December 31, 2005 to determine whether such costs may be recovered in the future. Capitalized costs were compared to estimated future cash flows from production of oil and natural gas reserves plus the cost (net of impairment) of unproved properties. Commodity prices used in the determination of cash flows were forecast by the Corporation's independent reserves engineers based on the following quoted benchmark prices adjusted for quality and transportation differentials:

	Oil WTI	Oil Edmonton Par	Natural gas AECO-C
	(US$/bbl)	(Cdn$/bbl)	(Cdn$/MMBtu)
2006	$60.00	$69.57	10.54
2007	57.50	66.61	9.52
2008	55.00	63.64	8.32
2009	52.50	60.68	7.71
2010	50.00	57.72	7.10
2011	47.50	54.76	7.24
thereafter, escalate each year	2%	2%	2%

Based on the ceiling test performed at December 31, 2005, no impairment of capitalized costs was recorded (2004 – nil).

5. BANK LOAN

The Corporation has a bank credit facility that provides for an operating demand line of credit of $4,700,000. The credit facility is with a Canadian chartered bank and is secured by a $5 million floating charge debenture over all the Corporation's assets and a general security agreement. The facility bears interest at the rate of 0.75% above the bank's prime lending rate. At December 31, 2005, no amounts were drawn against the operating line of credit (2004 – $510,000).

6. ASSET RETIREMENT OBLIGATIONS

The Corporation's asset retirement obligations are based on its net ownership interest in wells and facilities and management's estimate of the costs to abandon and reclaim those wells and facilities, as well as an estimate of the future timing of the costs to be incurred.

The estimated net present value of the Corporation's total asset retirement obligations is based on total future liabilities of $4,144,000 (2004 – $1,608,000). Payments to settle asset retirement obligations occur over the operating lives of the assets, estimated to be from immediate to 19 years. The calculation of total future liabilities assumes an inflation rate of 2% per annum in future years. Net present value has been estimated using cash flows discounted at the Corporation's credit-adjusted risk free rate of 7%.

As at December 31	**2005**	2004
Balance, beginning of year	**$ 1,030,207**	$ 297,514
Liabilities incurred	**244,428**	84,489
Liabilities acquired	**1,967,469**	578,391
Liabilities disposed of	**(35,987)**	–
Asset retirement expenditures	**(65,452)**	(1,850)
Accretion expense	**166,262**	71,663
Balance, end of year	**$ 3,306,927**	$ 1,030,207

7. INCOME TAXES

The future income tax liability at December 31, 2005 was determined using the expected statutory income tax rate of 35.92% (2004 – 38.1%). The components of the net future income tax liability are:

As at December 31	2005	2004
Property and equipment	**$ 1,924,897**	$ 1,033,777
Share issue expenses	**(208,957)**	(17,001)
Asset retirement obligations	**(1,187,848)**	(392,715)
	$ 528,092	$ 624,061

Income tax expense differs from the amount that would be obtained by applying the Corporation's statutory income tax rate of 38.12% (2004 – 38.62%) to the loss before income taxes. The difference results from the following items:

Year ended December 31	2005	2004
"Expected" income tax recovery	**$ (122,951)**	$ (220,546)
Non-deductible crown charges	**132,008**	59,618
Resource allowance	**(156,865)**	(81,106)
Change in tax rates of future tax liability	**11,618**	(44,252)
Non deductible stock-based compensation	**203,813**	308,009
Other	**1,428**	(27,146)
Income tax expense (recovery)	**$ 69,051**	$ (5,423)

The Corporation has available the following estimated tax pool balances which may be deducted in determining taxable income of future years:

As at December 31	2005	2004
Canadian oil and gas property expense	**$ 5,267,516**	$ 2,775,195
Canadian development expense	**3,002,790**	1,147,818
Canadian exploration expense	**329,167**	322,998
Undepreciated capital cost	**3,247,809**	1,473,912
Share issue expenses	**545,610**	49,268
Non capital losses	**–**	233,062
Total tax pools	**$ 12,392,892**	$ 6,002,253

8. SHARE CAPITAL

a) Authorized

Common Shares – unlimited number of Class "A" shares without par value

b) Common Shares

	Number of Shares	Amount
Buffalo Oil Company Limited		
Balance – December 31, 2003	7,146,875	$ 1,104,293
Stock options exercised	400,000	40,000
Balance prior to the acquisition	7,546,875	1,144,293
Fogo Resources Inc.		
Balance – December 31, 2003	6,340,890	5,641,683
Stock options exercised	105,000	128,854
Share issue expenses	–	(4,569)
	6,445,890	5,765,968
Total	13,992,765	6,910,261
Adjustment on acquisition	(6,445,890)	(1,144,293)
	7,546,875	5,765,968
Shares issued to effect acquisition	34,163,217	1,065,153
Change in future tax on share issue expenses	–	23,213
	41,710,092	6,854,334
Consolidation of shares	(33,368,074)	–
Balance – December 31, 2004	8,342,018	6,854,334
Cancellation of shares	(120,556)	–
Issued upon exercise of stock options	10,000	16,550
Issued upon exercise of founders' options	179,004	73,776
Issued for cash by private placement	5,825,622	7,900,003
Issued upon exercise of brokers' warrants	27,350	41,513
Share issue costs		(764,063)
Future tax benefit of share issue costs		178,443
Balance – December 31, 2005	**14,263,438**	**$ 14,300,556**

c) Shares issued to effect acquisition – 2004

Fogo acquired Buffalo effective December 17, 2004 by way of a share exchange (note 3). The share capital of the Corporation was derived from the existing share capital of Fogo plus an assigned amount in respect of the acquired net assets of Buffalo. The number of shares of the Corporation was derived from the number of Buffalo common shares issued and outstanding at December 17, 2004, plus the number of common shares issued to the former shareholders of Fogo on the basis of 5.3 Buffalo common shares for each Fogo share issued. The resulting shares were then consolidated on the basis of one for five shares issued. At the time of the acquisition of Buffalo, Fogo held 120,556 shares of Buffalo (on a post consolidated basis) which were returned to treasury by the Corporation during 2005.

d) Private Placements

On March 10, 2005, the Corporation issued 4,083,334 common shares at a price of $1.20 per share and 689,656 flow-through common shares at a price of $1.45 per share. Directors and officers of the Corporation purchased 185,000 of these shares for cash. On December 14, 2005, 1,052,632 flow-through common shares were issued at a price of $1.90 per share, of which 145,000 shares were acquired by directors and officers for cash.

As partial compensation for distributing the shares in these two private placements, selling agents were issued brokers' warrants to acquire from treasury, 265,417 common shares at a price of $1.20 per share, 44,827 common shares at a price of $1.45 per share and 68,421 common shares at a price of $1.90 per share. The brokers' warrants are exercisable for a period of 12 months from the dates of issue in March and December 2005 respectively. The fair value of these warrants amounting to $111,116 was determined using the Black-Scholes option pricing model assuming stock volatility of 53%, a risk adjusted interest rate of 3% and a one year term, and was recorded as part of share issue costs. Of the brokers' warrants issued on March 10, 2005, 27,350 had been exercised by December 31, 2005 and the remaining 282,894 were exercised before the expiry date on March 10, 2006.

e) Stock Options

The Corporation has a stock option program whereby directors, officers, employees and consultants are eligible to receive options. Exercise prices range from $1.10 to $1.61 per share and expiry dates range to December 2015. The options vest as to one third on the grant date and one third on each of the first and second anniversaries of the grant date. Outstanding stock options at December 31, 2005 and changes during the preceding two years are as follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contractal life (years)
Fogo Stock Option Plan			
Balance, January 1, 2004	150,000	$1.00	4.5
Exercised	(105,000)	$1.00	3.5
Cancelled	(45,000)	$1.00	3.5
Balance, December 31, 2004	–	–	–
New Stock Option Plan			
Adopted on acquisition of Buffalo	128,000	$1.10	4.5
Balance, December 31, 2004	128,000	$1.10	4.5
Granted	1,007,000	$1.25	8.8
Exercised	(10,000)	$1.10	4.4
Balance, December 31, 2005	**1,125,000**	**$1.23**	**8.5**
Exercisable, December 31, 2004	77,000	$1.10	4.5
Exercisable, December 31, 2005	**453,660**	**$1.21**	**7.6**

f) Founders' Options

Upon the acquisition of Buffalo, the terms of the founders' options were amended to reflect the share exchange and subsequent share consolidation such that 530,000 founders' options became outstanding at an exercise price of $1.13 per share. 318,000 founders' options were exercised on a cashless basis, resulting in the issue of 179,004 common shares for nil cash proceeds. The remaining 212,000 founders' options expired unexercised during the year.

g) Performance Options

Upon the acquisition of Buffalo, the terms of the performance options were amended to reflect the share exchange and subsequent share consolidation such that the Corporation has 737,760 performance options outstanding which, when vested, are exercisable until August 15, 2012 at a price of $0.01 per share. During 2005, 491,840 performance options vested when the 30 day average trading price of the Corporation's common shares on the TSX Venture Exchange exceeded $1.75 per share. On February 1, 2006, the remaining 245,920 performance options vested when the 30 day average trading price of the shares exceeded $2.00 per share. No performance options have been exercised.

h) Stock-based Compensation Expense

Year ended December 31	**2005**	2004
Stock options	**$ 405,751**	$ 10,223
Performance options	**128,910**	660,541
Founders' options	**–**	122,960
	$ 534,661	$ 793,724

The weighted average fair value of stock options granted during 2005 was determined to be $0.65 per option (2004 – options adopted on acquisition of Buffalo: $0.56) using the Black-Scholes option pricing model and the following assumptions:

Year ended December 31	**2005**	2004
Stock volatility	**53%**	27%
Risk free interest rate	**4.5%**	5.25%
Expected life	**5 years**	4.5 years

9. CONTRIBUTED SURPLUS

As at December 31	**2005**	2004
Balance, beginning of year	**$ 839,534**	$ 23,854
Compensation related to:		
Stock options assumed	**–**	45,810
Founders' options fair valued	**–**	122,960
Performance options fair valued	**–**	660,541
Stock options amortized	**405,751**	10,223
Performance options amortized	**128,910**	–
Brokers' warrants issued	**111,116**	–
Transfer to share capital – exercise of options and warrants	**(88,019)**	(23,854)
Balance, end of year	**$ 1,397,292**	$ 839,534

10. COMMITMENTS AND CONTINGENCIES

During 2005, the Corporation issued $3,000,000 of flow-through common shares. The Corporation committed to renounce resource expenditures to the subscribers for income tax purposes by March 31, 2006 and to incur qualifying expenditures of this amount by December 31, 2006. The renunciation of the qualifying resource expenditures to shareholders was filed with the tax authorities in March 2006. The Corporation anticipates utilizing qualifying resource expenditures of $1,000,000 that were incurred in 2005 and $2,000,000 to be incurred in 2006, in order to satisfy this commitment.

The Corporation is committed to leases for the rental of office space and equipment that expire in December 2010. Lease rental costs are expected to be a minimum of $165,700 each year.

The Corporation owns interests in oil and gas properties that are operated by other companies. As such, the Corporation is liable for its proportionate share of costs incurred by those operators. There are no known commitments by these operators for which the Corporation has not recorded its proportionate share of the costs.

11. SUBSEQUENT EVENTS

On February 9, 2006, the Corporation granted 115,000 stock options to consultants, exercisable for a period of five years from that date at a price of $1.93 per share. The options vest as to one-third immediately and one-third on each of the first and second anniversaries of the grant date.

On March 15, 2006, the Corporation completed a brokered private placement financing of 2,777,778 common shares at a price of $1.80 per share and 454,546 flow-through common shares at a price of $2.20 per share, for gross proceeds of $6,000,000. Share issue expenses are estimated at $600,000 and include the fair value of 210,101 warrants that were issued to the underwriter. The warrants are exercisable at any time for a period of 12 months from the various closing dates of the private placement at prices of $1.80 and $2.20 per share. The Corporation has committed to renounce $1,000,000 of qualifying resource deductions to the subscribers of these flow-through common shares by March 31, 2007 and to incur $1,000,000 of resource expenditures by December 31, 2007.

12. RELATED PARTY TRANSACTIONS

Certain directors and officers invoice the Corporation through their personal holding companies for the services they provide. These charges have been recorded as general and administrative expenses and total $460,362 for the year ended December 31, 2005 (2004 – $188,288). The Corporation obtains professional legal services from a law firm which is a related party through the interest of a director of the Corporation. In 2005, these legal services totalled $103,167 (2004 – $183,393). At December 31, 2005, $23,380 (2004 – $151,511) was included in Accounts payable and accrued liabilities in respect of services provided by entities related to officers and directors.

In September 2005, the Corporation became related to a company with which it conducts oil and gas operations when the Corporation appointed as a director, a person who is in a position of significant influence over that company. For the period from that appointment to the year-end, the Corporation provided technical and administrative management services for fees of $49,086 and it paid that company $81,301 in respect of royalties and fees in connection with pre-existing farm-in agreements. At December 31, 2005, the amount of $204,134 was included in Accounts payable and accrued liabilities as the net amount payable to this related company. Arising from the property acquisition in September 2005 (note 4), the Corporation granted an option to this related company to acquire approximately 23% of the producing oil and gas properties which the Corporation acquired in that transaction. The option is exercisable at any time up to June 30, 2006 upon the payment to the Corporation of $1.25 million, adjusted for capital expenditures and net cash flow applicable to the approximate 23% interest in the properties from October 1, 2005 to the date of exercise.

All related party transactions were incurred during the normal course of operations on terms and conditions similar to those on which the Corporation would have entered into such transactions with unrelated parties. These transactions are measured at the exchange amount, which is the fair value amount of consideration established and agreed by the related parties.

13. RISK MANAGEMENT

The Corporation markets its oil and natural gas production through industry specific marketing companies and also has receivables from joint venture partners in the oil and gas industry. All accounts receivable are subject to internal credit review designed to mitigate the risk of non-payment and, in certain circumstances, the Corporation demands payment in advance.

The bank credit facility bears interest at rates which fluctuate with market conditions.

14. SUPPLEMENTAL CASH FLOW DISCLOSURE

Year ended December 31	**2005**	2004
Change in current assets:		
Accounts receivable	**$ (1,487,107)**	$ (291,658)
Income tax receivable	**(8,646)**	(46,139)
Deposits and prepaid expenses	**(47,440)**	(7,784)
Accounts payable and accrued liabilities	**2,527,846**	1,232,702
	$ 984,653	$ 887,121
Change in non-cash working capital:		
Operating	**$ 206,211**	$ (236,350)
Investing	**778,442**	1,073,187
Acquired in exchange for shares	**–**	50,284
	$ 984,653	$ 887,121

Year ended December 31	**2005**	2004
Interest paid in cash	**$ 28,211**	$ 22,138
Taxes paid in cash	**–**	40,086

Corporate Information

Directors

William A. Trickett
Chairman of the Board and
Chief Executive Officer of
The Buffalo Oil Corporation

Dr. Edward W. Bogle [1][2]
Vice President, International
Portfolio Management, Nexen Inc.

H. Douglas Hunter [1][2][3]
President, RFM Capital Corporation

Gregory D. Moore [2][3]
Vice President, Operations and
Chief Operating Officer
Shiningbank Energy Ltd.

Roland K. Quinney
Chief, Frog Lake First Nation

Richard A. Shaw [1][3]
Senior Partner, McCarthy Tétrault LLP

(1) Member of the Audit Committee
(2) Member of the Reserves Committee
(3) Member of the C ompensation and Governance Committee

Management

William A. Trickett
Chief Executive Officer
and Director

Trevor G. Penford
President and
Chief Financial Officer

Duane B. Domier
Vice President, Operations and
Chief Operating Officer

Denis P. Kennedy
Vice President, Exploration

Gregory B. Anderson
Vice President, Land

Staff

Head Office

Jane Batchelor
Deborah Doyle
Auna Gough
Janet Halper
Steve Kwasniowski
Linda Madonna
Anthony Radu

Field Operations

Cal Avery
Murray Cochrane
Brian Hauer
John Quinney
Norman Quinney
Luc Sabourin
Terry Walker
Ken Young

Head Office

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Calgary, Alberta T2H 2P6
Phone: (403) 252-2462
Fax: (403) 252-1399
Email: info@buffalo-oil.com
Website: www.buffalo-oil.com

Legal Counsel

McCarthy Tétrault LLP
Calgary, Alberta

Bankers

ATB Financial
Calgary, Alberta

Transfer Agent

CIBC Mellon Trust Company
Calgary, Alberta

Auditors

Deloitte & Touche LLP
Calgary, Alberta

Independent Engineers

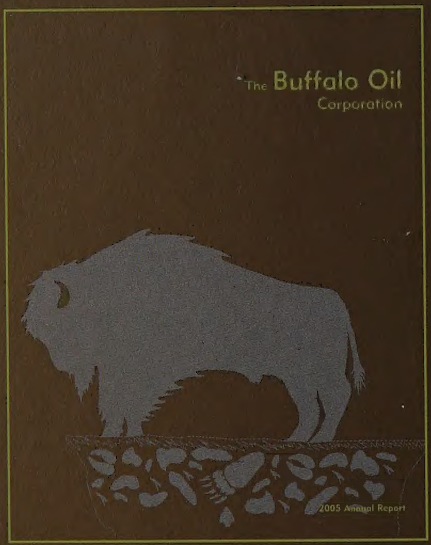
Paddock Lindstrom & Associates Ltd.
Calgary, Alberta

Stock Exchange Listing

TSX Venture Exchange
BFO

ABBREVIATIONS

bbl	barrel
boe	barrel of oil equivalent on the basis of 1 boe to 6 mcf of natural gas
boe/d	barrels of oil equivalent per day
km	kilometre
Mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
MMbtu	million British Thermal Units
Mmcf	million cubic feet
NGLs	natural gas liquids



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